

Message Text

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R 131243Z SEP 78
FM AMEMBASSY DAMASCUS
TO SECSTATE WASHDC 9653
INFO AMEMBASSY AMMAN
AMEMBASSY ATHENS
AMEMBASSY CAIRO
AMEMBASSY JIDDA
AMEMBASSY TEL AVIV
AMEMBASSY BEIRUT POUCH

C O N F I D E N T I A L SECTION 01 OF 03 DAMASCUS 05373

ATHENS FOR RTDO

E.O. 11652: GDS
TAGS: EGEN, EAID, SY
SUBJECT: SYRIA'S ECONOMIC MALAISE: AN IMPRESSIONISTIC
VIEW

1. SUMMARY: A SOON-TO-BE-RELEASED IMF STUDY, IN ADDITION
TO SUBJECTIVE IMPRESSIONS OF SYRIAN PRIVATE BUSINESSMEN,
INDICATE THAT SYRIA WILL FACE IN THE MEDIUM-TERM A SEVERE
ECONOMIC CRISIS, AS POOR PUBLIC SECTOR AND AGRICULTURAL
PERFORMANCE AND CONTINUED CONSUMPTION INCREASES MAKE
SYRIA'S ABILITY TO PAY FOR IMPORTS INCREASINGLY DUBIOUS.
IT SHOULD BE STRESSED THAT THIS IS BASED ON IMPRESSIONS
CURRENT IN DAMASCUS, NOT ON AN INDEPENDENT ANALYSIS.
SYRIA, LIKE OTHER MID-EAST COUNTRIES, NOTABLY EGYPT, HAS
SHOWN AN AMAZING ABILITY TO MUDDLE THROUGH WITHOUT MAJOR
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BREAKDOWN. THIS CAN BE COUNTED ON TO DELAY ARMAGEDDON.
IN THE MEDIUM TERM, HOWEVER, AN ECONOMIC CRISIS IS LIKELY
TO BE ADDED TO THE ALREADY-CRUSHING BURDENS FACED BY THE
SYRIAN GOVERNMENT. END SUMMARY.

2. DISCUSSING SYRIA'S ECONOMY THESE DAYS WITH ANYONE
WHO KNOWS WHAT IS GOING ON IS DEPRESSING. TO TAKE THE

OBJECTIVE FACTORS FIRST, THE IMF TEAM'S INITIAL FINDINGS (DAMASCUS 4859 NOTAL) SHOW A LACK OF MONETARY, FISCAL AND ECONOMIC POLICY THAT IS LEADING INEXORABLY TO DOOM. GDP GROWTH APPEARS NEGATIVE, THE MONEY SUPPLY IS BEING FED BY PRINTING PRESSES AS WELL AS BY BANK LOANS TO COVER PUBLIC SECTOR LOSSES, AND THE TRADE BALANCE IS MANAGEABLE ONLY BY OFFICIAL RESORT TO THE BLACK MARKET. BLACK MARKET OPERATIONS AND SMUGGLING MAY BE 20 PERCENT OF GDP. NEW GOVERNMENT REGULATIONS PROLIFERATE WHOSE MAIN PURPOSE APPEARS TO BE OBSTRUCTION OF COMMERCE (DAMASCUS 4317 NOTAL) AND THE DESTRUCTION OF SYRIA'S EXPORTING PRIVATE INDUSTRIES. THE BLACK MARKET RATE OF THE SYRIAN POUND LOOKS STABLE ONLY BECAUSE IT HAS ACCOMPANIED THE DOLLAR ON ITS DOWNWARD PLUNGE. (MOST RECENT RATE QUOTED IS SL 4.07 EQUALS US DOLLAR ONE.) PUBLIC SECTOR INDUSTRY IS OPERATING AT LESS THAN 40 PERCENT OF CAPACITY AND THE PERCENTAGE IS DECREASING AS NEW INVESTMENTS ARE COMPLETED ONLY TO STAND IDLE (THREE SUGAR REFINERIES AND A DETERGENT PLANT, FOR EXAMPLE). THE FIVE-YEAR PLAN HAS COME TO A NEAR HALT AS THE GOVERNMENT SHIFTS ITS EMPHASIS FROM INVESTMENT TO INCREASING PRODUCTIVITY, BUT IN VAIN SO FAR COMPLETION OF THE EUPHRATES IRRIGATION PROJECT APPEARS DECADES AWAY. INFLATION HAS QTE STABILIZED UNQTE AT ABOUT TWELVE PERCENT ANNUALLY AND THE COSTS OF SUBSIDIZING CERTAIN IMPORTED STAPLES SUCH AS RICE AND WHEAT ARE CLIMBING ACCORDINGLY. IN THE MIDST OF THIS, GOVERNMENT

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PRICING POLICIES, SUBSIDIES AND MONETARY EXPANSION ARE FEEDING A CONSUMPTION BOOM THAT SHOWS LITTLE SIGN OF ABATING.

3. THE SUBJECTIVE IMPRESSIONS ONE GAINS OF THE LACK OF BUSINESS CONFIDENCE, OF A GENERAL FEELING THAT THE GOVERNMENT IS LOSING ITS GRIP, AND OF FEAR OF THE FUTURE IS NO MORE ENCOURAGING. ONE YEAR AGO THE EMBASSY COMMERCIAL SECTION RECEIVED ONE VISIT A WEEK FROM SYRIAN BUSINESSMEN WHO WERE SEEKING US PARTNERS FOR AN INVESTMENT IN SYRIA. TODAY THE SAME BUSINESSMEN VISIT JUST AS FREQUENTLY TO SEEK INFORMATION ON INVESTMENTS IN THE US SO THAT THEY MAY IMMIGRATE. OTHERS HAVE ALREADY LEFT FOR ATHENS, PARIS AND LONDON, WHILE THE VERY BIG ONES ARE STEADILY LOWERING THEIR PROFILE IN SYRIA AND SHIFTING THEIR INVESTMENTS AND OPERATIONS ELSEWHERE IN THE MIDDLE EAST. SMALL BUSINESSMEN COMPLAIN OF A QUANTUM JUMP IN CORRUPTION ON THE PART OF BUREAUCRATS WHO FIND SOMETHING WRONG WITH THE OPERATION OF EVEN A SMALL FRUIT AND VEGETABLE STAND UNLESS OFFERED A BRIBE. FARMERS COMPLAIN THAT SOLDIERS HAVE TURNED INTO BRIGANDS STEALING SHEEP AND GOATS. (THE OWNER OF A PRIVATE SWIMMING POOL IN THE

OUTSKIRTS OF DAMASCUS CATERING TO DIPLOMATS STATED THAT SOLDIERS CAME OVER THE WALL ONE NIGHT AND STOLE ALL HIS POOL FURNISHINGS. HE COMPLAINED TO THE COMMANDER OF A NEARBY ARMY CAMP WHO SAID HE COULD DO NOTHING; HIS TROOPS HAD EVEN STOLEN THREE SHEEP HE HAD BROUGHT TO CAMP.) A LEBANESE REPRESENTATIVE OF A US REFRIGERATOR COMPANY SAID THAT HE PARTICIPATED IN THE DAMASCUS FAIR (EVEN THOUGH HE HAD NO HOPE OF DIRECT SALES) IN ORDER TO ADVERTISE HIS PRODUCT HITHERTO UNKNOWN IN SYRIA. IT APPEARS SYRIAN TROOPS IN THE ADF IN LEBANON HAVE BEEN BUYING REFRIGERATORS BY THE TRUCKLOAD FROM HIS COMPETITORS IN LEBANON AND HE WISHED TO DO INSTITUTIONAL ADVERTISING. DURING THE FAIR HE PASSED OUT CARDS ADVERTISING HIS

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TRIPOLI OUTLET. LARGE BUSINESSMEN REPORT WITH DISMAY THAT MINISTERS DENY ALL RESPONSIBILITY FOR NEW REGULATIONS THAT CAN CHARITABLY ONLY BE CALLED ILL-CONSIDERED AND POINT TO NAMELESS MEMBERS OF THE PARTY.

4. NONE OF THE ABOVE IS OVERSTATED. THIS IS NOT THE PICTURE OF A HEALTHY ECONOMY. THE PROBLEMS OF THE ECONOMY ARE WELL-KNOWN; IN BRIEF:

A) THE MASSIVE AID RECEIPTS OF 1974-76 FUELED CONSUMPTION, WHAT INVESTMENT TOOK PLACE WAS OFTEN ILL-

CONCEIVED AND GENERALLY NON-PRODUCTIVE.

B) PLAGUED BY POOR MANAGEMENT, LOW WAGES, REDUNDANT LABOR, POINTLESS PRICING POLICIES, AND A SHORTAGE OF SKILLED AND SEMI-SKILLED LABOR, PUBLIC SECTOR ENTERPRISES HAVE BEEN UNABLE TO INCREASE DOMESTIC PRODUCTION ENOUGH TO MEET EVEN A FRACTION OF EXPANDING DEMAND, BUT ARE RUNNING LOSSES IN THE HUNDREDS OF MILLIONS OF DOLLARS
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ANNUALLY.

C) PLAGUED BY CORRUPTION (INDUCED BY LOW WAGES) AND TRAPPED IN AN IDEOLOGICAL STRAIGHT JACKET, THE GOVT HAS BEEN UNABLE TO EITHER REFORM THE PUBLIC SECTOR OR TO ENCOURAGE THE PRIVATE SECTOR TO TAKE UP THE SLACK.

D) UNWILLING TO RISK CAPITAL IN ANY INVESTMENT WITH A PAYBACK EXCEEDING ONE YEAR, THE PRIVATE SECTOR HAS RESPONDED BY HELPING TO SPEED THE FLOW OF IMPORTS TO MEET CONSUMPTION.

E) AGRICULTURE REMAINS IN THE DOLDRUMS BECAUSE OF LAWS FORBIDDING IRRIGATION OF LARGE TRACTS OF PRIVATELY-HELD LAND, THE LACK OF CAPITAL AND TECHNICAL ASSISTANCE AVAILABLE TO COOPERATIVES, THE FIASCO IN OPERATING THE STATE FARMS AND THE GOVERNMENT CONTROL OF ALL LARGE-SCALE AGRICULTURAL MARKETING WITH LITTLE HOPE THAT ANY OF THIS CAN BE CORRECTED.

F) CONSUMPTION CONTINUES TO INCREASE STEADILY, ALL MADE POSSIBLE BY LARGE EXPENDITURES OF FOREIGN AID (SEE A), ARTIFICIALLY LOW PRICES FOR MANY STAPLES AND GOVERNMENT-PRODUCED GOODS, AND HUGE BUDGET DEFICITS.

G) THE ECONOMIC BURDEN OF SYRIA'S INVOLVEMENT IN LEBANON SHOULD ALSO BE INCLUDED, NOT ONLY THE PHYSICAL COSTS IN MEN AND MATERIAL BUT THE DESTRUCTION OF A HEALTHY BUSINESS AND INVESTMENT CLIMATE. BOTH FOREIGN AND SYRIAN BUSINESSMEN ARE WARY OF MEDIUM OR LONG-TERM PRODUCTIVE INVESTMENT, PRIMARILY BECAUSE OF THE UNCERTAIN BUT UNSETTLING VISTAS OPENED UP BY THE LEBANESE WAR. THERE ALSO SEEMS TO BE A DIVERSION OF THE GOVERNMENT'S ATTENTION (I.E., ASSAD'S) AWAY FROM ECONOMIC PROBLEMS, CREATING A VACUUM INTO WHICH VARIOUS IDEOLOGICAL FORCES HOSTILE TO ECONOMIC GROWTH HAVE STEPPED.

5. WHERE ARE WE GOING? IF WE ASSUME PRESIDENT ASSAD WILL
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CONTINUE TO FOCUS ALL HIS ATTENTION ON LEBANON AND LET THE ECONOMY DRIFT, WE PROJECT MORE OF THE SAME: GREATER

DEFICIT FINANCING TO KEEP THE INEFFICIENT PUBLIC SECTOR OPERATING; MORE MEASURES TO STAMP OUT PRIVATE SECTOR COMPETITION FOR AILING PUBLIC SECTOR INDUSTRIES; AND EVER-INCREASING SUBSIDIES TO KEEP PRICES LOW AND CONSUMPTION HIGH. THIS CAN CONTINUE ONLY SO LONG AS THE DECLINE OF THE FREE EXCHANGE RATE OF THE SYRIAN CURRENCY, THE INFLATION RATE, THE INCREASE IN SYRIA'S FOREIGN AID RECEIPTS, AND THE EXPANSION OF WORKERS' REMITTANCES THROUGH THE BLACK MARKET ARE KEPT IN RELATIVE BALANCE. THERE IS AN INEXORABLE RULE ABOUT PRINTING MONEY; HOWEVER, AS THE ANGLE OF THE CURVE OF MONEY SUPPLY BECOMES STEADILY GREATER, THE FREE EXCHANGE RATE WILL DO LIKEWISE IN A DOWNWARD DIRECTION AND INFLATION WILL GROW AT AN EVER-INCREASING RATE. UNFORTUNATELY, THERE IS NOTHING TO GUARANTEE THAT WORKERS' REMITTANCES AND FOREIGN AID WILL GROW AT AN EXPANDING RATE OR EVEN THAT THEY WILL GROW AT ALL. WHEN THAT TIME COMES, THE GOVERNMENT WILL SIMPLY LACK THE FUNDS TO PAY FOR IMPORTS AND THE CUT IN CONSUMPTION WILL COME SHARPLY AND PAINFULLY.

6. IF WE ASSUME THAT THE PRESIDENT DOES TAKE FORCEFUL CHARGE, HE BASICALLY HAS TWO OPTIONS: (A) CUT BACK NOW ON CONSUMPTION GRADUALLY BY REDUCING SUBSIDIES AND CLOSING DOWN THE MOST INEFFICIENT OF THE PUBLIC SECTOR INDUSTRIES EITHER BY FIAT OR LETTING THEM GO BROKE, OR (B) BY PROVIDING THE SORT OF LEGISLATIVE AND POLITICAL GUARANTEES THAT WOULD ENCOURAGE THE PRIVATE SECTOR TO TAKE UP THE SLACK. (WE DISCOUNT ANY POSSIBILITY OF INCREASING

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PRODUCTIVITY IN THE PUBLIC SECTOR ENOUGH TO MAKE ANY
DIFFERENCE.) OPTION (A) IS DANGEROUS BECAUSE IT WILL
DECREASE CONSUMPTION AND CAUSE UNEMPLOYMENT THUS ANGERING
THE POPULACE AND PROVIDING RECRUITS FOR ANTI-REGIME
ACTIVITY. OPTION (B) IS DANGEROUS BECAUSE IT STRIKES AT
THE ROOTS OF POWER AND PRIVILEGE OF THE BA'ATH LEADERSHIP
WHO WOULD BE CERTAIN TO RESIST. NEITHER OPTION IS VERY
PALATABLE.

7. READERS SHOULD BE CAUTIONED: (A) THAT THIS IS A
REPORT OF IMPRESSIONS HELD IN DAMASCUS, NOT A CERTAIN
PROPHECY OF DOOM, AND (B) THAT REGIMES TEND TO MUDDLE
THROUGH IN THE MIDDLE EAST. FOR EXAMPLE, SYRIA IS BLESSED
WITH A RESOURCEFUL POPULATION AND THE BLACK MARKET COULD
EXPAND TO 30 OR 40 PERCENT OF GDP BEFORE THE WEIGHT OF
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MAKING UP FOR ALL THE DISLOCATION IN THE ECONOMY BECOMES
TOO HEAVY. SECONDLY, THE SITUATION WOULD PROBABLY NOT
BECOME UNMANAGEABLE FOR CURRENT POLICIES FOR ANOTHER YEAR
OR SO. OTHER COUNTRIES, I.E. EGYPT, HAVE SURVIVED FOR
YEARS WITH INCREDIBLE TRADE IMBALANCES AND SOARING
INFLATION RATES. HOWEVER, SYRIA FACES SERIOUS, NON-
ECONOMIC PROBLEMS OF WAR AND SUBVERSION WHICH MOST OF
THESE OTHER COUNTRIES DO NOT. SOMETIME IN THE NEAR TO
MIDDLE-TERM FUTURE, AN ECONOMIC CRISIS IS LIKELY TO BE
ADDED TO THE REGIME'S BURDENS. SEELYE

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